

CALCPA AP&AS Committee
February 7, 2019
Morning Meeting Minutes

Introductions- Matt Lombardi

Matt called the meeting together at 9:00 a.m. Jim Babcock was appointed to take the morning minutes.

As part of introductions, members were asked to give their preference for face-to-face meetings or virtual meetings. There was an overwhelming preference for face-to-face meetings. Everyone was very appreciative for Paul Peterson hosting the virtual meetings. It was decided to have one virtual meeting a year. There are some CALCPA budget considerations to keep in mind for the face-to-face meetings.

EITF Update-Stu Harden

Stu gave update on the two outstanding issues: Issue No. 18-A Recognition Under 805 for an Assumed Liability in a Revenue Contract and Issue No. 8-B Improvements to Accounting for Episodic Television Series. Issue 18-A will not be issued until a related Invitation to Comment, Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805 is exposed. The comment period will be through April 30, 2019. Issue No. 18-B was exposed November 7, 2018 as Entertainment -Films- Other Assets – Film Costs (Subtopic 926-20) and Entertainment -Broadcasters- Intangibles-Goodwill and Other (Subtopic 920-350). Comments were due by December 7, 2018. Members questioned why the short comment period and what is FASB's thinking. Suggested that Jeremy Dillard (PCC member) could possibly provide some insight into FASB's thinking. Matt suggested that accounting subcommittee set up call for those interested in responding to the exposure draft.

FASB Update Frank O'Brien and Nancy Rix

Frank discussed the draft letter for Targeted Transition Relief for Topic 326 Financial Instruments –Credit Losses. The letter was tentatively approved by the committee. A conference call with the Accounting Subcommittee will be held to complete revisions. Matt suggested that a comment be added to the letter regarding the short 30-day March 8, 2019 response deadline.

FASB has numerous projects on its agenda. Frank discussed the following:

- 1) Distinguishing Liabilities from Equity
- 2) Exposure draft Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-For-Profit Entities (Topic 958) extending Private Company Accounting Alternatives on Goodwill and Certain identifiable Intangible Assets to Not-For-Profit Entities. There is discussion about public companies adopting the amortization of goodwill as in old GAAP. If this becomes GAAP, then several members believe the guidance should be in one place in GAAP to avoid confusion. Suggested that Jeremy could bring this matter to the next PCC meeting.
- 3) There are numerous codification improvements in process but no need for committee to comment on these.
- 4) Hedge accounting – no comments

- 5) Lessors – clarify lease standard
- 6) Share based consideration payable to customer/consultants. Additional guidance in addition to ASU 2018-07 for recording at fair value.
- 7) Replacement of LIBOR rate to Secured Overnight Financing Rate (SOFR) initial discussions.
- 8) Accounting for Asset Acquisitions and Business Combinations – initial phase to improve existing GAAP.
- 9) PCC Issue 2018-01 Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards. The accounting for stock option and restricted stock is complicated. PCC is studying this including looking at IRS 409(A) as possible practical expedient. Since this is a noncash item many VCs and start-ups are not that concerned about it. Jeremy indicated that PCC will be addressing this issue in 2019 with conclusion in early 2020.

Nancy Rix discussed Collections under FASB No. 116. There will be an update of the definition and disclosures for Collections by 2020.

AICPA Update Nancy Rix

Nancy discussed her draft comment letter for Working Draft of Inventory Valuation Guidance From Forthcoming AICPA Accounting and Valuation Guide Business Combinations which was released November 19, 2018 (AICPA Accounting and Valuation the “Guide”) There was concern since the primary use of the Guide was for the AICPA Statements on Standards for Valuation Services that generally accepted accounting principles may not be appropriately addressed. The guidance related to inventory (Draft Guidance) has new insights into valuing the intangibles affecting inventory valuation. Although comments were due February 1st, Nancy contacted the AICPA project manager who indicated comments were still be accepted.

Financial Reporting Executive Committee (FinREC) Aleks Zabreyko

Aleks reported that FinRec has reviewed and approved the Business Combination Task Force guidance for inventory effective November 19, 2018. This guidance is considered to be technical literature and is nonauthoritative. Aleks reported on some of the observations and discussions the committee had about the guidance. There was an extended discussion among the members about how the top-down method and bottom-up method work. There is a detail exhibit in the guidance for the two methods which results in the same net realizable value for finished goods and WIP.

Matt adjourned morning meeting at 12:05.

CalCPA AP&AS Committee Minutes – Afternoon 12:45pm to 2:43pm on Thursday 2/7/2019

1. Will approve previous meeting minutes in May 2019 meeting
2. Inventory Manual – Nancy Rix
 - a. Presentation of guide to help auditors

- b. Highest and best use of asset – based on 820 unless market participants regarding buyer has different use
 - c. Q – With regard to excess items, highest and best use may not be same if you had to lower price to liquidate, etc. Is this a concept in the FV calc. Need comments on this. Issue would be with good excess inventory. Buyer would have to assess reserves and this may have impact on highest and best use.
 - i. O – Matt Lombardi – guidance might need to be clarified with respect to this question. Some take away from 12.48.
 - ii. O – Howard Sibelman – paragraph on holding costs may help clarify
 - d. Wrap up – will be sending commentary to project director within 2 weeks.
- 3. PCAOB Update – Paul Peterson
 - a. New board
 - b. 2 standards issued late 2018 not yet official
 - c. 5-year strategic plan to 2022 – developed w input from others outside of PCAOB
- 4. SSARS Update – Gail Anikouchine
 - a. ARC committee met in January
 - b. Will meet in May to review revised exposure draft
 - c. Changes added
 - i. Refer to financial reporting framework + guidance to determine acceptability)
 - ii. Changes to no disclosures/explanatory/
 - iii. Descriptions of special purpose framework – definitions to define
 - iv. Process if management cannot take responsibility for FS
 - v. Work of accountants and other auditors – use of SSARS, etc.
 - vi. Task force of ASC – discussion to take place in May
- 5. PEEC – Dave Wilson
 - a. 2 exposure drafts
 - i. Re-exposure state & local govt entities –
 - ii. Staff augmentation arrangements – sending staff to do some bookkeeping on attest clients/staff loaned to attest clients – what happens here? Is it prohibited employment or is it a non-attest service. Think about threats if it is considered employment or non-attest. – consider duration of services.
 - 1. Consider duration of the project
 - 2. Need to comment on appearance of independence because this is an interpretation of independence rules.
 - 3. Action – committee voted to respond to this; # of those in support of the proposal - 17; # of those not in support – 4 (have consensus)
 - a. Changes requested – address short period of time; 90 section to address might consider cautionary statement like SSARS 90 – Dave will look at; define what constitutes member “satisfying” themselves – adequacy of activities, etc.; consider the yellow book standards adopted by CA as guideline (will piggy back into 1.295 of independence code w AICPA)
- 6. AICPA Update – Gary Krausz

- a. ERISA project has been tabled because ASB still working on auditor report languages. Now exposure drafts for ERISA reporting. Nothing else for us to comment on at this time.
 - b. Convergence of attestation to ISAE3000 – ability of practitioner to do attestation report without written assertion from responsible party. We’ve already commented on this. ASB still going through comment letters. Internal deliberation going. Expecting re-exposure soon.
7. Communications Update – Nancy Rix
 - a. Email to Nancy if interested in planning committee for A&A meeting this October 2019 (Nancy and Mark are co-chairing this year)
 - b. Mark Wille – need to figure out who will cover October 2019 magazine – article and cover, content, etc. potentially leases as next content or/credit losses/new audit report – need volunteers for these committees Mark Dauberman volunteered for leasing; Howard will do credit losses – Gary will help with new audit report; Mark will reach out to Damien English to discuss articles with him.
8. Chapter Chairs update – Sue Hudgens
 - a. Doug will email report to everyone
9. CalCPA Update – Vinit Shrawagi
 - a. Government relations – successful day at capital
 - b. Loretta Doon successor will be Anthony Pugliese – was at AICPA previously. Loretta will retire in June 2019.
 - c. Financial Accounting Foundation – content sharing opportunities. Committee to take a look at key topics and see what might benefit our membership most. Still ascertaining direction of CalCPA works. Jeremy clarified - FASB/FAF – how can increase awareness of PCC activities. Focus is on how better outreach can be done. Topics included in agenda materials. Let Vinit know if any topics we feel strongly about. potentially carve out time in future AP&AS meetings to discuss FAF objectives. Good time to do it in May 2019 2 day meeting.
10. Other
 - a. May 13 – San Diego accounting day. 2 volunteers if needed. Reach out to Mark Dauberman.
 - b. May Meeting – Robert Dohrer may not be able to attend. Alternates – Mike Cheng? State Controllers Office is another option. Ahava Goldman – another option. Karl Mayes – another option. John will follow up with Stanford professor. Reach out to TIC liaison – Christy Alutze.
 - c. CalCPA Update – Martha Amador no longer with CalCPA. Vinit Shrawagi is the informational replacement here.
11. Meeting adjourned at 2:43pm

Submitted: Stacie Kowalczyk, Partner, ArmaninoLLP